

Message Text

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ACTION EUR-12

INFO OCT-01 EA-06 ISO-00 SP-02 AID-05 EB-04 NSC-05 RSC-01

CIEP-01 TRSE-00 SS-15 STR-01 OMB-01 CEA-01 CIAE-00

FRB-01 INR-05 NSAE-00 XMB-02 OPIC-03 LAB-01 SIL-01

DODE-00 PM-03 H-01 L-01 PA-01 PRS-01 USIA-06 SEC-01

INT-05 FEA-01 OES-02 /090 W
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R 012039Z NOV 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 5328

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

UNCLAS SECTION 01 OF 03 LONDON 14304

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS:ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING NOVEMBER 1

BEGIN SUMMARY: LITTLE HARD DATA ON THE UK ECONOMY AP-

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PEARED DURING THE WEEK ENDING NOVEMBER 1, BUT THERE WAS

MUCH INTANGIBLE NEWS RELEVANT TO ECONOMIC POLICY-MAKING, IN PARTICULAR, THE UPCOMING NOVEMBER 12 BUDGET. THE TRADE UNIONS ARE REPORTED TO BE OFFERING TIGHTENED VOLUNTARY WAGE GUIDELINES IN RETURN FOR A REFLATIONARY BUDGET, WHILE INDUSTRY HAS REQUESTED THAT CORPORATE FINANCIAL BURDENS BE REDUCED BY ABOUT 2.4 BILLION POUNDS IN THE FINANCIAL YEAR ENDING MARCH 1975 AND 3.75 BILLION POUNDS IN THE FOLLOWING FINANCIAL YEAR. THE PRICE COMMISSION WARNED OF THE DANGER OF ESCALATION IN WAGES WHILE THE COAL MINERS UNION EXECUTIVE REJECTED A PAY-LINKED PRODUCTIVITY PLAN WHICH MAY LEAD TO ANOTHER CONFRONTATION OVER WAGE DEMANDS THIS WINTER IN THE COAL INDUSTRY. DIVIDENDS FELL IN OCTOBER; AN INDICATION, PERHAPS, OF THE CORPORATE LIQUIDITY SQUEEZE. HOWEVER, MORE ANOMALIES CROP UP; BUILDING STARTS ROSE OVER THE SUMMER, THOUGH THEY ARE STILL WELL DOWN OVER LAST YEAR.

THE UK DREW \$400 MILLION AGAINST THE \$1.2 BILLION IRANIAN LOAN AGREED UPON LAST JULY THIS BRINGS THE TOTAL ANNOUNCED DOLLAR DRAWINGS BY OFFICIAL BORROWERS DURING OCTOBER TO AT LEAST \$650 MILLION. STERLING REMAINED STABLE VIS-A-VIS THE DOLLAR, SHOWING ONLY SLIGHT STRENGTHENING DURING THE WEEK. THE CLOSING RATE ON THURSDAY (OCT 31) WAS \$2.3360, UP \$0.0025. ON A TRADE-WEIGHTED BASIS, THE POUND'S DEPRECIATION NARROWED FROM 18.9 PERCENT (OCT 24) TO 18.6 PERCENT ON THURSDAY (OCT 31). GOLD ROSE TO A SIX MONTH HIGH OF \$171.25 DURING TUESDAY'S TRADING BUT CLOSED THURSDAY (OCT 31) AT \$167.25, UP \$3.00 FROM LAST THURSDAY'S CLOSE. END SUMMARY

I. DOMESTIC ECONOMY

1. THE TRADES UNION CONGRESS (TUC) IS REPORTED TO BE PREPARING TIGHTENED "SOCIAL COMPACT" WAGE GUIDELINES IN RETURN FOR A REFLATIONARY BUDGET. THE TUC WOULD LIKE TO SEE AN INCREASED FISCAL STIMULUS AMOUNTING TO 1.5 BILLION POUNDS PRESUMABLY EITHER THROUGH TAX REDUCTIONS OR PUBLIC EXPENDITURE INCREASES, AND A 1 BILLION POUND INJECTION OF PUBLIC FUNDS TO THE PRIVATE AND PUBLIC SECTOR FOR INVESTMENT THROUGH THE NOT-YET-FORMED NATIONAL ENTERPRISE BOARD (NEB), SELECTIVE RELAXATION OF THE PRICE CODE, IN-

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CREASING NATIONALIZED INDUSTRY INVESTMENT, AND EXPANDING HOUSING. IN RETURN, THE TUC WOULD MAKE CLEAR THAT THE ANNUAL CYCLE ON WAGE NEGOTIATIONS MUST BE OBSERVED EXCEPT IN EXCEPTIONAL CIRCUMSTANCES, AND THAT THE 30 POUND PER WEEK MINIMUM FOR LOW-PAID WORKERS MUST NOT BE USED TO BOOST THE WHOLE STRUCTURE OF WAGES IN AN INDUSTRY. THE QUESTIONS OF WHETHER THE TUC CAN ENFORCE THE PRESENT AS WELL AS A TIGHTENED "SOCIAL COMPACT," AND THE IN-

FLATIONARY DANGERS OF SUCH A REFLATIONARY BOOST, MAKE
ACCEPTANCE AND FEASIBILITY OF SUCH A PROPOSAL
PROBLEMATIC.

2. THE PRICE COMMISSION QUARTERLY REPORT WARNS THAT
PRICES AND COMPANY PROFITS COULD BE SERIOUSLY AFFECTED
BY ESCALATING WAGE CLAIMS. THE REPORT INDICATED THAT
PRESSURE ON PRICES AND PROFITS HAD MODERATED AS COM-
MODITY PRICES HAVE LEVELED OFF IN RECENT MONTHS. BUT
THE REPORT APPEARS AMBIGUOUS ON WHETHER COMPANY PROFIT
LEVELS HAVE BEEN SERIOUSLY ERODED AS IT DOES NOT TAKE
INVENTORY APPRECIATION INTO ACCOUNT IN ESTIMATING
PROFITS. IT DOES SHOW A DOWNWARD TREND ON PROFITS,
HOWEVER.

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CIEP-01 TRSE-00 SS-15 STR-01 OMB-01 CEA-01 CIAE-00

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DODE-00 PM-03 H-01 L-01 PA-01 PRS-01 USIA-06 SEC-01

INT-05 FEA-01 OES-02 /090 W

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R 012039Z NOV 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 5329

INFO AMEMBASSY BERN

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AMEMBASSY COPENHAGEN

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DEPT PASS TREASURY

3. THE COAL MINERS UNION EXECUTIVE BOARD REJECTED A WAGE-LINKED PRODUCTIVITY PLAN. WITH COAL STOCKS AT VERY LOW LEVELS, THIS MAY LEAD TO A NEW WAGE CONFRONTATION WHEN THE MINERS OPEN NEGOTIATIONS WITH THE COAL BOARD
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OVER THEIR WAGE CLAIMS IN EARLY 1975, ACCORDING TO THE COAL BOARD CHAIRMAN.

4. THE CONFEDERATION OF BRITISH INDUSTRY (CBI) RECOMMENDED TO CHANCELLOR HEALEY THAT THE NOVEMBER 12 BUDGET INCLUDE PROVISION THAT WILL REDUCE THE FINANCIAL BURDEN ON THE CORPORATE SECTOR BY 2.4 BILLION POUNDS THIS FINANCIAL YEAR (APRIL 1974 THROUGH MARCH 1975) AND 3.75 BILLION POUNDS NEXT FINANCIAL YEAR. CBI PUT FORWARD 4 PROPOSALS: (1) WITHDRAWAL OF THE ADVANCE CORPORATION TAX (33/67 OF DIVIDENDS PLUS 50 PERCENT TEMPORARY SURCHARGE ON THAT AMOUNT); (2) CHANGES IN INVENTORY VALUATION IN PROFITS TO REDUCE TAXES ON COMPANIES; (3) REDUCTION OF THE CORPORATION TAX FROM 50 TO 35 PERCENT RETROACTIVE FOR 73/74 PROFITS; AND (4) ABOLITION OF THE PRICE CONTROLS.

5. DIVIDENDS IN OCTOBER SHOWED AN ABSOLUTE FALL OVER LAST YEAR AS COMPANIES REPORTED THAT SHAREHOLDERS RECEIVED AN AVERAGE OF 2 PERCENT LESS IN DIVIDENDS IN OCTOBER THAN IN OCTOBER 1973, EVEN THOUGH PRE-TAX PROFITS SHOWED AN INCREASE OF OVER 11 PERCENT.

6. BUILDING INDUSTRY NEW ORDERS ROSE SOMEWHAT OVER THE SUMMER MONTHS. THEY ARE STILL WELL BELOW LAST YEAR'S LEVEL, HOWEVER; THE IMPETUS TO THIS RISE WAS FROM THE PUBLIC SECTOR IN WHICH NEW ORDERS IN THE JUNE-AUGUST PERIOD ROSE 22 PERCENT OVER MARCH-MAY PERIOD AND 12 PERCENT ON JUNE-AUGUST 1973. NEW ORDERS FROM THE PRIVATE SECTOR DROPPED 1 PERCENT IN JUNE-AUGUST OVER THE PREVIOUS THREE MONTHS AND 55 PERCENT OVER THE PREVIOUS SUMMER.

II. INTERNATIONAL

7. ON OCTOBER 29, BRITAIN MADE THE FIRST OF THREE \$400 MILLION DRAWINGS ON THE \$1.2 BILLION IRANIAN LOAN AGREED UPON IN JULY. THE LOAN IS REPORTED TO CARRY COMMERCIAL RATES OF INTEREST (NO SPECIFICS WERE ANNOUNCED) AND IS REPAYABLE IN DOLLARS OVER THE NEXT FIVE YEARS. IN ACCORDANCE WITH THE JULY AGREEMENT, WHICH INDICATED THAT BRITISH BORROWING FROM IRAN WOULD BE FOR PUBLIC CORPORA-
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TIONS, THE PROCEEDS OF THIS DRAWING WILL BE PLACED WITH THE NATIONAL WATER COUNCIL. THIS FIRST DRAW ON THE IRANIAN LOAN PLUS LAST WEEK'S FIRST DRAW OF \$250 MILLION ON THE \$2.5 BILLION EURODOLLAR LOAN BRINGS THE TOTAL ANNOUNCED OFFICIAL UK DOLLAR BORROWING DURING OCTOBER TO \$650 MILLION.

8. STERLING SHOWED ONLY SLIGHT STRENGTHENING AGAINST THE DOLLAR, RISING FROM FRIDAY'S (OCT 25) CLOSING RATE OF \$2.3335 TO \$2.3360 ON THURSDAY (OCT 31). SOURCES INDICATE THAT MOST TRANSACTIONS REMAIN LARGELY COMMERCIAL WITH A SUBSTANTIAL PORTION OF THE LARGE MID-MONTH STERLING OIL PAYMENTS BEING HANDLED THROUGH THE FORWARD MARKETS, THEREBY AVOIDING LARGE SPOT DEMANDS. THIS IS ALSO REFLECTED IN THE SPOT-FORWARD SPREAD WHICH HAS TENDED TO REMAIN RATHER NARROW. ON A TRADE-WEIGHTED BASIS, THE POUND SHOWED SLIGHT APPRECIATION OVER THE

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CIEP-01 TRSE-00 SS-15 STR-01 OMB-01 CEA-01 CIAE-00

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INT-05 FEA-01 OES-02 /090 W

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R 012039Z NOV 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 5330

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

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DEPT PASS TREASURY

WEEK, STRENGTHENING FROM 18.9 PERCENT (OCT 24) (AVERAGE DEPRECIATION SINCE SMITHSONIAN) TO 18.6 PERCENT ON THURSDAY (OCT 31). THERE WAS A FLURRY OF BUYING IN THE GOLD MARKET ON TUESDAY (OCT 29) WITH THE PRICE REACHING A SIX MONTH HIGH OF \$171.25 DURING THE DAY. GOLD CLOSED UNCLASSIFIED

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THURSDAY (OCT 31) AT 167.25, UP \$3.00 FROM LAST THURSDAY'S CLOSE.

9. THE FORWARD DISCOUNT ON STERLING REMAINED FAIRLY NARROW DURING THE WEEK.

	10/24	10/31	CHANGE
1 MONTH	0.51	0.70	UP 0.19
3 MONTHS	1.96	2.20	UP 0.24
6 MONTHS	4.05	4.55	UP 0.50

(ALL FIGURES IN CENTS)

10. LOCAL AUTHORITY DEPOSIT RATES CONTINUE TO SHOW NARROWING OF THE SPREAD BETWEEN THE 1 MONTH RATE AND THE 3 AND 6 MONTHS RATES WHICH HAD FOR SOME TIME SHOWED

ABOUT A 1 PERCENT DIFFERENTIAL BETWEEN THE RESPECTIVE
RATES.

	10/24	10/31	CHANGE
1 MONTH	LL-3/16	11-3/4	UP 9/16
3 MONTHS	11-13/16	12	UP 3/16
6 MONTHS	12-5/16	12-7/16	UP 1/8

11. EURODOLLAR RATES CONTINUED TO EASE DURING THE WEEK.

	10/24	10/31	CHANGE
1 MONTH	10-1/8	9-1/8	DOWN 1.0
3 MONTHS	10-1/2	10-1/8	DOWN 3/8
6 MONTHS	10-5/8	10-1/8	DOWN 1/2

12. THE MINIMUM LENDING RATE REMAINED UNCHANGED AT
11-1/2 PERCENT ON FRIDAY, NOVEMBER 1.

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Message Attributes

Automatic Decaptioning: X
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Disposition Authority: n/a
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Disposition Event:
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Subject: ECONOMIC DEVELOPMENTS - WEEK ENDING NOVEMBER 1 BEGIN SUMMARY: LITTLE HARD DATA ON THE UK ECONOMY AP-
TAGS: PINT, ELAB, ECON, UK
To: STATE
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